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Subject: Fund Spy: The 10 Biggest Wealth-Destroying Funds of 2002
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The 10 Biggest Wealth-Destroying Funds of 2002
These funds suffered bonfires of lost money last year.
by Russel Kinnel, Director of Fund Analysis | 01-23-03

"Who were the biggest wealth-destroyers of 2002?" Some of you asked that after I wrote about the biggest wealth-creating funds of 2002
http://news.morningstar.com/doc/article/0,1,84814,00.html. I do take requests, so here, then, are the funds that suffered the largest dollar-value decreases in assets after taking cash flows out of the equation. It's a depressing thought, and Ralph Wanger, manager of Liberty Acorn LACAX—which, by the way, was only number 97 on the list—expressed it quite well in his third-quarter shareholder report, titled "The Vanity of the Bonfire":

"The terrible stock market has cost us a lot of money. In the first nine months of this year, Liberty Acorn Fund alone saw at least the temporary disappearance of about $956 million in assets. That is an inconceivably large amount of money. To figure out how much of a loss we have, I have to calculate how much work it would have been to destroy that much money on purpose. One way to do it—would have been to convert $956 million into $100 bills on January 1, 2002, and order our 20 investment professionals to spend all their time burning it. ... It would take all 20 of us working full time at this repetitive task to get rid of $956 million in just nine months."

So here's the list of funds that had the biggest bonfires. You'll notice it's a pretty respectable list. The reason is simple: In order to get on the list, a fund had to have billions of dollars invested to begin with, and the only way to attract billions is to put up strong long-term performance. In fact, all of the funds on this list have produced excellent long-term numbers, and some even had a respectable 2002. So, this isn't a sell list. In fact, some of these offerings are actually quite good.

1. Fidelity Magellan FGAX
http://quote.morningstar.com/switch.html?ticker=FGAX
Bonfire size: $18 billion. It was a lousy year for Magellan, although its 23.7% loss in 2002 was only 1.6 percentage points worse than the S&P 500’s. Manager Bob Stansky was right to underweight tech stocks relative to the index, but he was a little too bullish on the prospects for an economic recovery and a market recovery. Top 10 holdings Viacom’s and Morgan Stanley's stock losses reflected the continued weakness in both areas. Despite those mistakes, Stansky's five-year returns are better than 75% of large-blend funds and about 1 percentage point per year better than the S&P 500.

2. Vanguard 500 Index VFBNX
Bonfire size: $16 billion. In 2002, this fund did just what you want an index fund to do. It produced second-quartile returns relative to its peer group and tracked its benchmark pretty closely. An index fund that consistently does that will produce solid long-term results and, of course, this one has. It outperformed its category in nine of the last 10 years, and its 10-year returns are better than 80% of its category. Unfortunately, in 2002, tracking the benchmark and beating your peers still meant an unpleasant 22.1% loss. If you just bought this fund in the past couple of years, don't panic. A good index fund will reward your patience, and I'm sure this one will do the job.

3. Fidelity Growth & Income FGRIX
http://quote.morningstar.com/switch.html?ticker=FGRIX
Bonfire size: $6 billion. Manager Steve Kaye actually had a great year. The fund's 18% loss bested 85% of the large-blend category. Kaye has protected shareholders from much worse losses in the bear market because he didn't lose sight of the importance of valuations during the Internet Bubble. Many managers used creative ways to rationalize paying huge prices for profitless dot-coms, but Kaye held fast. In 2002, he remained shy of tech, and he also boosted performance by scooping up bargains near the smaller end of the large-cap stock universe.

4. Janus Worldwide JAWWX
Bonfire size: $5.2 billion. Ugh. This fund still has a good long-term record, but it was a pretty ugly year. Former manager Helen Young Hayes and Laurence Chang lugged their peer group by 6.2 percentage points and the MSCI EAFE Index by 10.1 percentage points. You wouldn't expect big returns from this fund in a value year like 2002, but it was still disappointing. In prior years the problem was tech and telecom; however, Hayes and Chang jettisoned those stocks in 2001 and early 2002, so the problem this time around was stock selection.

5. Putnam Voyager A PVOYX
http://quote.morningstar.com/switch.html?ticker=PVOYX
Bonfire size: $6.2 billion. This fund's 26.5% loss was actually a little better than that of the typical large-growth fund. However, at mid-year this fund shifted strategies from a blend/growth mix to become more of a pure large-growth offering. Thus, it might do worse the next time growth stocks get battered. Lead manager Brian O'Toole, who came from Citigroup, took over in June. He invests in a mix of steady growers and higher risk names.

6. Vanguard Windsor II VWNFX
http://quote.morningstar.com/switch.html?ticker=VWNFX
Bonfire size: $3.8 billion. This fund's 16.9% loss landed in the top third of large-value fund returns. Lead manager James Barrow has thus outperformed his peers in eight of the last nine years. Barrow executes his plain-vanilla strategy well. He looks for solid businesses trading at low prices, preferably with healthy dividends. The fund made this list mainly because Barrow's work has attracted a lot of investors. The $21 billion fund is now the second largest actively managed stock fund in the Vanguard lineup. (Wellington is number one.)

7. Fidelity Equity-Income FEQIX
http://quote.morningstar.com/switch.html?ticker=FEQIX
Bonfire size: $3.7 billion. This fund lost 17.2%. Again, that's pretty good for a large-value fund. This is one of Fidelity's quieter funds. Manager Stephen Petersen runs a dividend-focused portfolio that's broadly diversified among sectors and stocks, so nothing exciting ever happens here. The fund has landed in its category's second quartile in six of the past seven years.

8. Putnam Fund for Growth & Income PGRWX
http://quote.morningstar.com/switch.html?ticker=PGRWX
Bonfire size: $3.6 billion. This fund's 19.1% loss was just a touch below the large-value average. That seems to be the norm here.
Returns have landed in the third quartile for four straight years. The fund's five-year returns are also just a bit below average, and the 10-year returns are a bit above.

9. Vanguard Total Stock Market Index VTSMX
http://quote.morningstar.com/switch.html?ticker=VTSMX
Bonfire size: $3.5 billion. The story here is pretty similar to that at Vanguard 500. Its 21% loss landed in the top third of the large-blend category. It beat Vanguard 500 by about 1 percentage point because Total Stock Market Index has greater exposure to mid-caps, and last year's market was biased to the small-cap end.

10. Janus Twenty JAVLX
http://quote.morningstar.com/switch.html?ticker=JAVLX
Bonfire size: $3.4 billion. A timely move into cash helped to stanch the bleeding at this fund. Its 24% loss bested three quarters of the large-growth group. That's a nice improvement over the prior two years. By New Year's Day, manager Scott Schoelzel had trimmed his cash and bond stake from 22% to 14%. This fund and its siblings at Janus will be among the more interesting stories as 2003 unfolds.

Poll Results
In a recent Fund Spy, I asked, "Who's the best manager or managers never to win Domestic-Stock Manager of the Year?" Mason Hawkins, Staley Cates, and John Buford of Longleaf Partners LLPFX
http://quote.morningstar.com/switch.html?ticker=PRFDX came in a close second with 24% of the vote. Tied for third (each with 19% of the vote) were Sam Stewart of Wasatch Core Growth WGRROX
http://quote.morningstar.com/switch.html?ticker=WGRROX and Howard Schow, Theo Kolokotrones, and Joel Fried of Vanguard Primecap VPMCX
http://quote.morningstar.com/switch.html?ticker=VPMCX. Fidelity Magellan manager Bob Stansky took fifth with 10%.

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